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1 May 1962

## MEMORANDUM FOR RECORD

**SUBJECT:** Discussion on 1 May 1962 of a Management Control System for DD/R Activities

**REFERENCE:** Outline for Developing a Management Control System for DD/R Projects

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On 1 May 1962 I met with [REDACTED] for the purpose of preliminary discussions of the various aspects of a management control program for DD/R activities. In general, we attempted to stick to reference outline which divided the general topic into five aspects:

1. The annual program paper.
2. Individual activity programs ("project outlines").
3. Status reporting.
4. The use of advisory committees.
5. The single allotment system.

1. The Annual Program Paper

At the outset a question arose as to how the DD/R might prepare an over-all annual program, <sup>SINCE</sup> in fact its most important activities are shared with service activities (notably the Air Force). If there is to be a National Reconnaissance Office, presumably at some point (though probably not this fiscal year) there will be an NRO budget, the funds for which being supplied in part by the Air Force (and perhaps others) and part by the Agency. This division of responsibility between CIA and the Pentagon has, of course, existed for several years. In the past the DPD annual program has shown only Agency money, with

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brief footnotes to indicate the contributions of other agencies. This fragmented system can, and may have to, continue for the present programing exercise, but the fact is that it does not give the clearest of all possible pictures. If in the future there is to be a combined NRO budget (with supporting annexes for the participating agencies), this will of course have to be negotiated between Dr. Scoville and Dr. Charyk.

For the present programing cycle, DPD has drafted a program document not unlike those of past years. Included within it are program statements and budgets for air support activities, which are to remain in the DE/P, and for air proprietary activities which are to remain in the Domestic Operations Division of the DE/P. This document can readily be broken apart at any given point, but it is true that the DE/R part does not at present organize DE/R undertakings in a fashion that would ultimately be considered desirable. The question remaining is whether these DE/R activities should be made the subject of a separate program presentation by the DE/R, and in a substantially changed format. DPD has proceeded down the present road in the absence of instructions to the contrary and in order to meet the DE/P deadline.

The present document gives a budget breakdown by major projects with three subheadings under each of the larger projects. It contemplates the use of each major project as the control element: thus if the total budget for IDEALIST were [REDACTED] Dr. Scoville would not have to return to the Director for further approvals unless this total budget were to be exceeded or if some major redirection of substantive effort were necessary. 25X1A

**2. Individual Activity Programs**

Whatever the final format of an annual operational program, there must be some method for securing approvals during the year of new items not included in the annual program, or of items discussed only briefly or inferentially in the annual program. In the DE/P the document for achieving this end has been the project outline - which has also served to provide documentary detail at intervals on all DE/P projects.

In DPD the bureaucratic equivalent of the project outline has been the activity program, which is in essence a method of providing procurement authority. This is a short and rather simple document which has

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served well for projects whose major focus is procurement; but the activity program has been ill fitted to certain air support and air proprietary projects in which procurement as such has not been a major consideration. Because the activity program was used somewhat improperly for these purposes, it has been under fire from the then Inspector General. With the removal of air support and air proprietary activities, it seems appropriate that the activity program, perhaps with some minor changes, be used as the major means of approval. It is not suitable, however, for the operational phases of a project or for the discussion of such matters as security, deception and cover. For these purposes it will be necessary to create some new piece of paper, though the form of this was not discussed at this meeting.

25X1A9a During the course of the discussion of the activity program, [REDACTED] brought out that occasionally such documents have not provided him with sufficient background of policy discussions to justify some of the actions he will be required to take. He cited the need to justify, for instance, sole source procurement. It was agreed that the way to overcome this legitimate objection is to require that each activity program be passed through the contracting officer before being sent to the approving authority.

25X1A9a A problem specific to [REDACTED] contracting function is the provision of policy approval for him to let contracts for other agencies. In many programs there is no Agency money involved, and our only function is to provide covert contracting. After a very long discussion with Mr. Houston two years ago, it was concluded that such programs required DCI authorization in order for [REDACTED] legally to proceed to let contracts. Although it is possible that the DCI could delegate this approval authority, he has never chosen to do so. [REDACTED] hopes that the proposal we will ultimately make to change various authorities will not have the side effect of calling into question his current arrangements with the services. It is worth noting that as a legal matter, [REDACTED] should not perform such contracting services unless there is in fact a joint interest between the Agency and the appropriate service.

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In the context of this part of the discussion, there naturally arose the question of delegation of financial authority. The IG had said in his

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study of DPD that each activity with a cost in excess of \$100,000 should require "separate approval". Although this recommendation did not say who should do this approving, the implication was clear that the Director should, possibly with the advice of the PRC or some similar body. It is our surmise that the figure \$100,000 was chosen because it represents the largest delegation ever given to the DD/P. Given the magnitude of many DD/R programs, however, this figure is no longer realistic. Drawing an analogy between these activities and those of the AEC, [REDACTED] suggested that a delegation of \$1,000,000 to Dr. Scoville and of \$100,000 to Colonel Beerli would not be out of line. If these figures seem enormous on their face, it is worth pointing out that they represent less than one percent of the Special Projects budget in the case of the proposed delegation to the DD/R, and less than one tenth of one percent in the case of Colonel Beerli. Since, however, these figures represent a radical departure from present Agency practice, it will be necessary to attempt to demonstrate that such delegations would not represent a loss of control by the DCI. The next paragraph suggests a method by which the DCI (and the DD/R) may be kept informed of the use of these delegations.

**3. Status Reporting**

In the past few years there has been no regular method (at least on paper) by which the DCI was kept advised of the status of various DPD projects. The DD/P had relatively frequent meetings with the DCI at which these projects were discussed, and there were occasional external requirements for status reports, but all this was rather hit or miss. In accordance with the IG's recommendation, and simply in the interest of orderly management, it was agreed that quarterly status reports on major Special Projects' activities would be in order. There would presumably be an R&D section and an Operations section, each with a brief financial statement. The report on each individual project need not be in great detail provided that progress and problems are clearly outlined. If the DCI were subsequently interested in greater detail on any one project, a separate report could be prepared without the originating unit having been required to go into such detail on every project in preparing the basic report. [REDACTED] advised that he could provide obligations figures for the above at any time, but hoped

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he would not have to produce a projection report prior to 31 December of any fiscal year. It was also proposed that there be in this quarterly status report a section summarizing (in perhaps a sentence each) the delegations that had been exercised during the period. It can be argued that with such a report of delegations, the DCI is provided with a method of assuring that the delegations are being used as he intended. [REDACTED] suggested as an alternative that a drop copy of each delegation authorized be sent to the DCI as it occurred. Whichever of these two methods were adopted, it would apply equally to the delegations exercised by the Chief of Special Projects, so that the DD/R would be informed of the uses made of this secondary delegation. 25X1A9a

If, as has been suggested above, there is a real relationship between the amount of a delegation and the reporting on its use, it is equally true that there should be a reciprocal relationship between programing and reporting. If the status reporting system is timely and accurate, it is less necessary for the over-all executive to argue in favor of great depth of detail in the basic programing document. It was agreed that the inter-relationship of these various elements of a management control system be presented as forcefully as possible in the request to the DCI for approval of the system.

**4. The Use of Advisory Committees**

The group determined that this was essentially beyond their competence.

**5. The Single Allotment System**

There appears to be no argument anywhere in the DD/R that the use of single allotment system would be a great assistance to Dr. Scoville in managing the activities assigned to him. Since there is a two year precedent for this system, it is possible that the Budget Division will not contest the issue. If they do, the burden of proof will be on us to demonstrate that the effect of the single allotment system is to reduce their work without reducing their knowledgeability of the use of Agency funds. It is understood that [REDACTED] intends to assign a Budget Analyst full time (and with all clearances) to work on DD/R projects. 25X1A9a

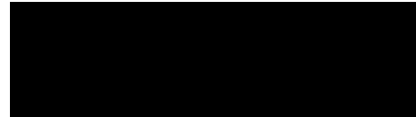
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This should afford [REDACTED] the information he needs without creating the paper mill entailed in a multiple allotment system.

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**Distribution:**

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DDR: [REDACTED] 7713:bb (1 May 62)